RENEW WISCONSIN

April 13, 2018 – *Filed Electronically*

Ms. Sandra Paske
Public Service Commission of Wisconsin
P.O. Box 7854
Madison, WI 53707-7854

Re: Quadrennial Planning Process III (Docket 5-FE-101)

Dear Ms. Paske,

Thank you for the opportunity to comment on the March 22, 2018 Commission Draft Memorandum (PSC REF# 339941) regarding the Quadrennial Planning Process III for the state's energy efficiency and renewable resource programs for calendar years 2019 through 2022.

Our comments are focused on the Renewable Energy Sections of the Memo. In addition to our comments is Appendix A, describing an improved "Business Renewables" program.

Renewable Energy Programs

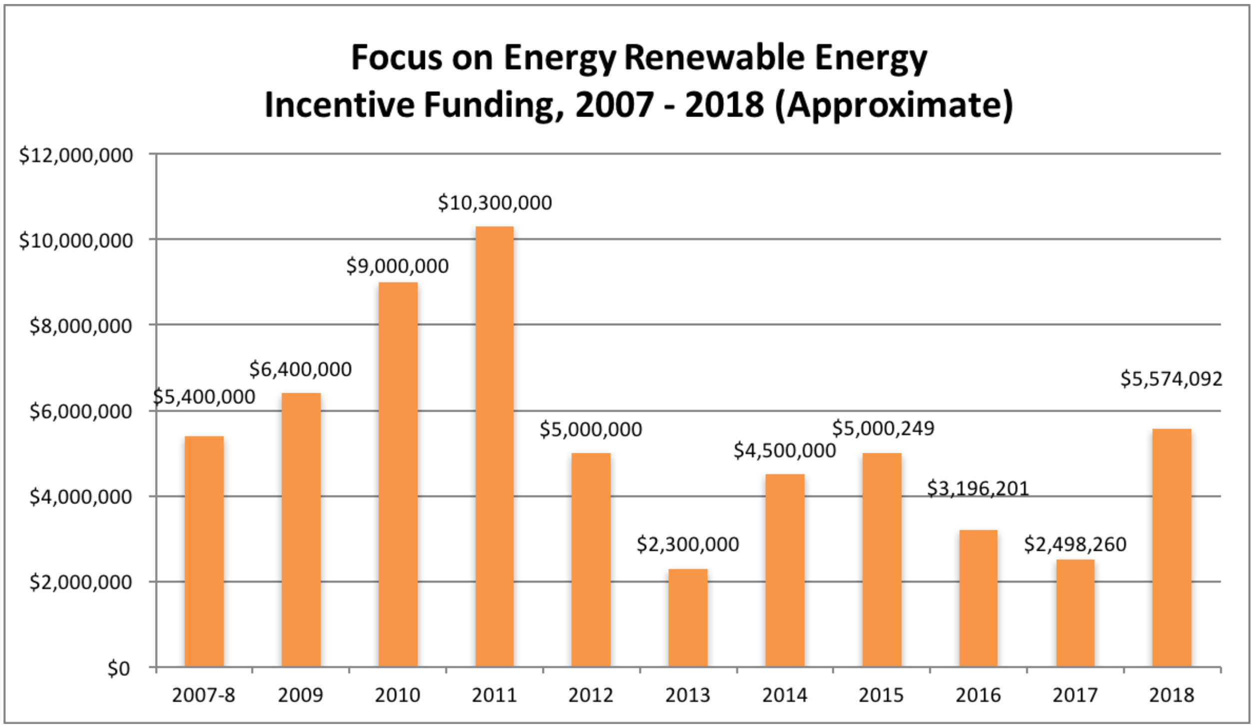
Before discussion of the alternatives described in the memo, we wish to convey four overarching principles which guide our comments and recommendations for the Renewable Energy programs for 2019-2022. We believe the Commission's decisions in Fall 2016 set forth a positive pathway for this program, and we hope the Commission builds on that progress in this planning process.

We urge the Commission to support our recommendations that support these four core principles for the Renewable Energy programs in the next quadrennium:

1) Consistent
2) Predictable
3) Simple
4) Market-driven

1. Consistent:

Since 2007, the incentive budget and spend for the Renewable Energy Program has been very up-and-down. Based on RENEW Wisconsin's records, the graph below depicts the incentive spending for the past 11 years:



As you can see, this program's budget has been on somewhat of a roller-coaster.

For 2019-2022, we urge the Commission to set <u>sufficient and consistent</u> budget levels for the four-year period so that the program can be implemented with certainty.

This consistency is important for both ratepayers/customers and the market of installers.

Ratepayers, especially businesses, plan projects well in advance based on internal budgeting and fiscal years, and having inconsistent or unknown future program design and funding are very difficult to work around. Similarly, the renewable energy marketplace is trying to grow their customer base and businesses, which is difficult when customers tend to wait until incentives like Focus on Energy are available and accessible.

In addition to Focus on Energy's programs, two important federal issues will play out from 2019-2022 which will contribute to market uncertainty:

a) Tariffs on solar panels and equipment, which are discussed in the Staff Memo. These tariffs took effect in February 2018 and will remain in place for the next four years, with the tariff levels declining over time. The full impact on material supply and price for solar panel equipment is not yet known.

b) Even more importantly, but not discussed in the Memo, is that the 30% Federal Tax Credits for home and business installations of renewable energy technologies will be phasing down (and out, for residential customers) during this quadrennium.

Federal Tax Credit Levels: Phasing Down Over 2019-2022	**2019**	**2020**	**2021**	**2022 and beyond**
Residential Tax Credits for Geothermal, Solar, and Small Wind	30%	26%	22%	0%
Business Tax Credits for Solar and Small Wind	30%	26%	22%	10%
Business Tax Credits for Geothermal heat pumps	10%	10%	10%	0%

These important changes at the federal level will result in significant changes in the cost of renewable energy installations to customers during this quadrennium.

Given these changing situations at the federal level, and the historic funding changes in Focus on Energy's Renewables Incentives programs, Focus on Energy's Renewables Program should in contrast be <u>as consistent as possible for 2019-2022</u>.

<u>2. Predictable</u>:

Since 2011, the Renewables Program has undergone significant changes based on Commission decisions to the program's design. Consider:

- In 2011, renewable incentives were shut off for approximately 6 months
- In 2011, certain technologies were favored and required to use 75% of the funding, even though the markets for those technologies were not economic at the time. This artificially depressed markets for other technologies.
- In 2013, incentives were once again shut off for the final 3 months of the year
- In 2015, the 75%/25% funding split was removed, and a renewable energy loan program was started
- In 2016, the renewable energy loan program was ended. Incentives were continued, with a new 12% cost cap for residential systems and small business systems.

In addition, key decisions in 2014 and 2016 were made late in those years, causing the year-end activity and start of the following year programs to be delayed.

It is very important that the Commission make a timely budget decision – and not a delayed decision - that will give four years of certainty and predictability to the Focus on Energy Renewable Energy incentives.

We value the prospect of the EERD study that is discussed in the Staff Memo. We believe it may yield important insights to the Program Administrator and Implementers regarding ways to enhance the Renewables Programs.

<u>However, the Commission should not delay in setting overall program design and budget levels until November. Such a delay would unnecessarily create unpredictability and uncertainty.</u>

The marketplace for large renewable projects is already sitting in this uncertainty, as the last round of "RECIP" was run in Fall 2017 and there will not be a RECIP round in 2018. Any renewable project business development that has occurred in the past four months is already operating under the uncertain environment around the Focus renewables offerings for 2019. Please do not extend this uncertainty for another four-to-six months.

<u>3. Simple</u>

The Fall 2016 PSC decisions were very helpful in simplifying the Renewable Energy program. The Residential Renewable Rewards program in particular has been transparent, consistent, and easy to use for both customers and the installation industry.

However, the "RECIP" program has struggled with these common-sense goals. The importance of consistency in program parameters, transparency in the award selection process, and ease of use by customers and contractors cannot be underestimated.

We therefore propose that the Commission approve a "Residential Renewables Program" and a "Business Renewables Program" and not remain tethered to the RECIP model.

We believe a far simpler, more market-driven, and more cost-effective approach is available for Business Renewables, which we describe in Appendix A of our comments.

A Commission approval of a more general "Business Renewables Program" will allow the Program Administrator to best design any sub-programs to meet the markets while incorporating the improvements recommended in the EERD study if they are valuable, and when the time is right. Such a program will allow the Program Administrator the needed flexibility to ensure success.

4. Market-Driven:

The Residential Renewables Rewards program has seen consistent growth in the number of projects funded since 2015. We continue to see growing market interest in these technologies through 2022.

The RECIP program, in contrast, has not been able to meet the full market demand. From our records:

- RECIP for 2017 had 59 projects awarded out of 104 applications
- RECIP for 2018 had 64 projects awarded out of 111 applications

Thus, the budget levels for Renewable Energy should be increased to meet this rising demand.

We continue to support the principle that all cost-effective renewable technologies and projects be eligible for incentives. The Renewables program should be flexible enough to respond to market demands and meet the needs and desires of the ratepayers who are supporting the program. Congress' extension of federal tax credits for geothermal, small wind, and some biomass-based technologies should drive additional activity for those technologies as well.

With these four core principles explained, the following section outlines our recommendations based on the Staff Memo.

RENEW Wisconsin's Recommendations on Alternatives Presented in the Staff Memo:

Renewable Energy Programs Design & Structure (Pages 38-42):	
Details:	We believe the Commission should approve a "Residential Renewables" program and a "Business Renewables" program, and allocate funding accordingly. The Commission should not force the continuation of the "RECIP" structure, but rather create a Business Renewables program that can enable the flexibility to meet the energy savings and cost-effectiveness goals.
Recommendation:	**RENEW Wisconsin Supports Alternative 2, Modify the structure, and approve "Residential Renewables" and "Business Renewables" incentive programs.**

As stated above, **<u>we strongly believe the Commission should not wait for the EERD study</u>** to make these decisions as it would create an unnecessary delay that would be harmful to the ratepayers and the renewable energy market.

Our proposal allows the Commission to approve a program structure that can evolve and improve throughout 2019-2022 and avoids the need to delay a decision until this study is completed.

Renewable Energy Mid-Size Business Offering (Pages 43-45)	
Details:	We agree with Staff's determination in the Memo that mid-sized businesses are not well-served under the current structure. A broader "Business Renewables" program as we propose would still enable sub-programs that serve small, medium, and large sized renewable projects. If the Commission chooses instead to continue RECIP to serve larger businesses, then we agree that an additional tier should be added in the prescriptive program to serve mid-size business projects.
Recommendation:	**Alternative 1: Determine that a third tier should be added to the prescriptive incentive structure to serve mid-sized business projects.**

<table>
<tr><td colspan="2">Renewable Energy Budgets for 2019-2022 (Pages 45-49)</td></tr>
<tr><td>Details:</td><td>As shown in our graphic on page 2 of our comments, from 2007-2018 the funding for this program has varied greatly, creating challenges for the marketplace. The average budget over this period has been almost exactly $5.5 million, nearly exactly the 2018 budget level. As noted by Staff, with this budget level, mid-sized businesses are not being well-served. As we noted, we expect increased interest in geothermal, biomass/biogas, and small wind given improved federal tax credits through 2021.</td></tr>
<tr><td>Recommendation:

Recommendation (continued):</td><td>We support Alternative 4, funding at $6 million per year, to allow residential and all-sized business projects to have sufficient funding opportunities. Importantly, we also support the Option to allow flexibility to move funding where the market dictates.

We recommend the following budget levels:

<table>
<tr><th>Program</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th></tr>
<tr><td>Residential Renewable Incentives</td><td>$1,200,000</td><td>$1,200,000</td><td>$1,200,000</td><td>$1,200,000</td></tr>
<tr><td>Business Renewable Incentives</td><td>$4,800,000</td><td>$4,800,000</td><td>$4,800,000</td><td>$4,800,000</td></tr>
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</td></tr>
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	For the Residential program, we recommend the 12% incentive remain in place, and be applied to geothermal systems as well. That technology should be treated equally to solar PV. We also recommend the maximum incentive cap be raised to $3,000 (up from $2000) for residential renewables systems. For business programs, we recommend the 12% incentive for prescriptive offerings. We recommend that funding levels for small business, mid-sized business, and large business segments be set annually at appropriate levels. We support the flexibility of the Program Administrator to allocate and move funding between these tiers to meet market demands.

Continued Review/Assessment of Anaerobic Digester System Program (Pages 49-54)	
Details:	The BC Organics project is still in the early stages, and we believe it is prudent to allow that project to make more progress before additional funds are deployed into this concept. Moreover, we do not know whether the amount of $5 million is sufficient to support the next biogas energy project that would advance the goals of Focus on Energy. For those reasons, we support a cautious approach that would allow Commission staff and interagency workgroup members to consider potential new initiatives to produce, and find markets for, manure-derived biogas.
Recommendation:	**We support Alternative 3, direct the interagency workgroup to gather more information and report back to the Commission on alternatives for future support of integrated digester projects by April 30, 2019.**

Once again, thank you for the opportunity to provide these comments. Please see Appendix A, attached, for more information about our recommendation for a more simplified, more transparent, predictable, and market-driven Business Renewables Program.

Sincerely,

Tyler Huebner
Executive Director
RENEW Wisconsin

Appendix A: Recommended "Business Renewables Incentives" Program Design.

Working closely with the renewable energy marketplace, the following experiences with the current RECIP business renewables programs lead us to believe there may be a better alternative.

- Being run only once per year, this application process is "driving" the business development and construction cycle for the renewables industry, instead of working in partnership with what would otherwise be the normal cycle for customer acquisition and construction.

  In short, imagine a company calls a solar contractor today in April 2018 to get a bid with pricing and asks "are there Focus on Energy incentives available?" The solar contractor responds, "not at this time, but they might come back next year." Many times, the customer then decides to wait and see if those incentives come back. This creates undesirable cycles in the business development and construction flow for projects.

- Cost-effective solar photovoltaic projects have earned nearly all the awarded RECIP projects in 2017 and 2018 perspective, but even the successful solar contractors are urging change to make the business renewables program better.

- Designing and installing solar PV installations for commercial customers has become more standardized over the years. As the marketplace and components markets have grown, there has been much less differentiation in terms of price, product quality, and system output than was once the case.

  The RECIP process has three shortcomings due to this situation:
  - The application process, which can reach 35 pages each, is cumbersome and time-consuming.
  - The differentiators between successful and unsuccessful proposals are very small. It has become difficult for customers and installers to understand why certain projects are not funded.
  - When there is little to separate the projects being reviewed, the uncertainty around worthy projects not receiving an incentive becomes its own barrier for submitting proposals

- Although they have been eligible for incentives, biogas, geothermal, and small wind have not had much success with RECIP in recent years. We believe a more straightforward program will better support all cost-effective renewable technologies.

Proposed Solution: RENEW believes that the simplest remedy would be to restructure RECIP within a "Business Renewables Incentives" Program and create a reservation system, making it parallel the successful Residential Renewable Rewards Program.

In the Residential Program, applications are reviewed under a first-come, first serve process that determines eligibility under certain pre-determined criteria. As long as the proposed system meets the eligibility criteria determined by the Program Administrator, the system should receive an incentive.

Aspects we support for a Business Renewables reservation incentive program, which could be determined by the Program Administrator:

- As with Renewable Rewards, RENEW supports an incentive at 12% of the project's cost.
- We believe the total incentive size should be capped at $250,000 for solar and geothermal and $500,000 for biogas.
- Eligibility criteria should be set to ensure cost-effectiveness and minimum performance levels (such as at least 1100 kWh per kW-DC per year for solar PV)
- The most important decision in designing a reservation structure is to set a relatively narrow time window for encumbering funds committed to an approved incentive. We propose 60 days. A tightly drawn encumbrance period will minimize the time in which those dollars remain unavailable for other applicants while the award is pending.

We believe this Business Incentives reservation-style structure will:

- **Be more transparent and easy-to-use** for both customers and installers

- **Allow for the steady flow of incentives** going to eligible projects, matching the natural business development and construction cycle of our industries, as opposed to jamming projects through a RECIP being offered only once or twice a year

- **Allow for more projects, more technologies supported, more energy savings, and a higher cost-effectiveness**

- **Save more energy per incentive dollar spent.** With $4.8 million allocated, we could expect at least 24,000,000 kWh of annual electricity savings through this program, and more if the program is able to successfully attract biogas and geothermal projects.

  The additional savings will drive a better energy return per incentive dollar as well. We project saving 5 "first-year kWh" per incentive dollar, up from 4.3 in and 4.2 in 2015 according to the 2016 evaluation.

- **25-year energy savings from these projects yield an equivalent energy acquisition cost from the public's incentive dollars of 0.8 cents per kWh (less than 1 penny per kWh) compared with wholesale LMP costs of 3-4 cents per kWh that the public would otherwise be paying for electricity acquisition.**